CONTAGION

By James Cook

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Contagion! That's a word you don't want to hear. It means what's over there is coming here. Everybody has heard the mantras "we are loading our grandchildren with debt," and "future generations will pay the price for our spending folly." However, it's not the distant future we have to worry about because the nasty stuff is going to happen to us in the here and now. Future generations are going to be more worried about their safety than their finances. We, on the other hand, are going down with the ship.

You can only commit economic and financial sins for so many decades before you have to pay the price. Everybody is familiar with our enormous debt and runaway spending. We throw money around wastefully in order to stimulate the economy. In fact, our government employs waste as a policy. Wasting money is the new road to prosperity.

It's not just spending madness, astronomical debt and inflationary money printing that threaten us. It's the growing national mood of hostility towards capitalism. It's the public's demand for subsidies and their fierce resistance to cuts. It's the government elevating green energy while undermining the market economy. It's a growing and incompetent bureaucracy extending its regulations into our lives. In other words it's Socialism.

The socialist nanny state is the model that's failing in Europe. They can no longer borrow enough to keep social programs intact. In some countries socialism has made them lazy, spoiled and demanding. In other countries a hoard of trouble makers depend solely on government for their livelihood. European nations excel at extracting the income and wealth from the workers and producers and passing it out to the moochers. However, when government plays Santa Claus it gets carried away with the gift giving. It has to borrow so much that it can't borrow any more except at an interest rate that sinks both the government and the economy.

Will this European contagion spread to the U.S.? Some sort of economic punishment for our spending sins is inevitable. The socialism that's failing in Europe will also fail here. It's not a question of whether we will suffer dire consequences, it's only a question of when. It's possible that the dollar will soon have the purchasing power of a Kleenex. The time of reckoning won't be postponed for long. If you want to take the time to look you can see it coming.

THE BIGGEST BANKING CRISIS IN WORLD HISTORY
By Raoul Pal, Fund Manager
(condensed)

- We don't know exactly what is to come, but we can all join the very few dots from where we are now, to the collapse of the first major bank…
- With very limited room for government bailouts, we can very easily join the next

dots from the first bank closure to the collapse of the whole European banking system, and then to the bankruptcy of the governments themselves.

- There are almost no brakes in the system to stop this, and almost no one realizes the seriousness of the situation.
- The problem is not government debt per se. The real problem is that the $70 trillion in G10 debt is the collateral for $700 trillion in derivatives...
- Yes, that equates to 1200% of Global GDP and it rests on very, very weak foundations.
- From an EU crisis, we only have to join one dot for a UK crisis of equal magnitude.
- And then do you think Japan and China would not be next?
- And then do you think the U.S. would survive unscathed?
- That is the end of the fractional reserve banking system and of fiat money.

It is the big RESET.

- We have around 6 months left of trading in Western markets to protect ourselves or make enough money to offset future losses.
- Spend your time looking at the risks of custody, safekeeping, counterparty etc. Assume that no one and nothing is safe.
- After that...we put on our tin helmets and hide until the new system emerges.

THE LOOTING OF SAVERS
By Martin Hutchinson
(condensed)

One of John Maynard Keynes' principal crimes against sound economics was his demonization of savers. Calling for the "euthanasia of the rentier," he proposed the paradox of thrift, whereby savers in a recession are supposed to damage the ability for the economy to recover by depressing demand. Like Keynes' equally spurious calls for increased government spending as a stimulus, this demonization of savers has been used by intellectually dishonest politicians of the left to justify policies that have the effect of robbing savers, whether through inflation, excessive taxation or repudiation of government debt.

In reality, saving is the essential precondition for capital investment, and therefore for economic growth. Societies with inadequate savings cannot generally pull themselves out of poverty, however abundant their natural resources. Middle class saving is the key to enterprise formation in any society. Nurturing middle class savings is thus the most important task of government. John Locke said "Government has no other end, but the preservation of property," and he didn't overstate the position by much.

Worldwide monetary policies, in place now for almost four years, are uniquely unkind to savers. By forcing interest rates, both short-term and long-term below the rate of inflation, they force savers to receive a negative real return or take large risks to achieve a positive one. The latest Keynesian solution to the unwillingness of debt markets to finance further bouts of government spending is to spend yet more money, and to finance it by monetary expansion and partial repudiation of debt. This would get debt levels down, but would close the markets to further debt issues, since investors are not so foolish as to lend to borrowers who have already defaulted on their obligations.

There is however an alternative approach, which currently appears more and more attractive to distraught Keynesians, and that is financial repression. Under this technique, which was most successfully applied by the British government to work down its excessive debt level at the end of World War II, regulations are used to prevent domestic savers from moving their money into international assets. Monetary authorities are then encouraged to promote inflation, to the extent that domestic interest rates are kept below the rate of inflation.

Using this technique governments can run deficits for a generation or more, while the value of their debts is reduced by inflation. Add in a stiff income tax, to penalize further the nominal interest returns of savers foolish enough to buy government debt, and the government's debt position can be retrieved

quite nicely – at the cost of the nation's savings and the rest of the economy. Needless to say savers, especially those fool enough to believe in the government's promises to maintain a sound currency, were robbed blind and ended their lives impoverished.

WE COULDN'T HAVE SAID IT BETTER

"The first recorded default in Greek history took place in the 4th Century BC when 13 Greek City States borrowed funds from the Temple of Delos. Most of the borrowers never made good on the loans and the Temple took an 80% loss on its principal. The Greeks have been walking away from their debt ever since. They declared bankruptcy in 1826, 1843, 1894, and 1932. It is estimated by some observers that Greece has been in default during its modern era totaling 90 years or approximately 50% of the total period that the country has been independent." **David Pescod, Analyst**

"As the curtain eventually falls on the drama unfolding in Europe, the world will refocus its attention on the more spectacular events in the U.S. The sovereign debt crisis that is now playing out in Europe will cross the Atlantic, and when it opens here the Real Crash may indeed finally begin. The average American will have a front row seat but will hardly enjoy the show."
Peter Schiff, Author

"We are approaching a situation in which economic distress engenders political unrest and revolution. If this happens in Europe it will probably happen in the United States as well. Many people will think such a prediction is farfetched, but revolutions have followed on the heels of economic distress in ancient and modern times. It is safe to say that the present economic unraveling isn't going to stop. The reason for this may be found in the decadence of our civilization. We ourselves have degenerated from our ancestors. All the signs are present including signs of impending calamity." **J.R. Nyquist, Editor**

"It takes about a day and a half for Washington to rack up $6 billion in debt. With each passing hour, our debt crisis grows larger, our entitlement time-bomb ticks closer to detonation, and our politicians do everything in their power to change the subject." **Reason Magazine**

"There is no entity on earth that can bail out Europe." **Graham Summers, Editor**

"We are in the final innings of a debt super-cycle and I think the likely next move is a breakdown of the U.S. government bond market (history's largest Ponzi scheme). Since it is the heart of the world's financial markets, you can draw your own conclusions. All of the rates and spreads are unreal. It may be the only game in town, but the public has finally gotten wise and decided not to play. Buy gold and silver and salt it away under your mattress as it offers much better safety and returns." **Aubie Baltin, Editor**

"You can't solve deep-rooted structural problems – mal-investment, social change, deindustrialization, global trade imbalances, systemic fragility, financialization, imperial decline, cultural stupefaction (etc, etc, etc) – by throwing money at problems. All throwing more money can do is buy a little more time (and undermine the currency)." **John Aziz, Editor**

"QE to infinity is more certain than death and taxes." **Jim Sinclair, Editor**

"In recent months as turmoil bubbled across the debt markets of Europe, the United States had beckoned as a safe haven. But in truth, the problems are as bad, if not worse, on this side of the Atlantic. Ironically, America has not had to deal with its day of reckoning because lesser problems surfaced first in Europe. But when Europe comes to some modest resolution of its problems, or when bond investors realize they have jumped from the frying pan into the fire, there will be no hiding from the unresolved problems here." **Peter Schiff, Author**

"A disorderly break-up of the euro area will be far more damaging to global financial markets than the crisis of 2008. In fall 2008 the decision was whether or how governments should provide a

back-stop to big banks and the creditors to those banks. Now some European governments face insolvency themselves. The European economy accounts for almost 1/3 of world GDP. Total euro sovereign debt outstanding comprises about $11 trillion, of which at least $4 trillion must be regarded as a near term risk for restructuring.

It is almost certain that large numbers of pensioners and households will find their savings are wiped out directly or inflation erodes what they saved all their lives. The potential for political turmoil and human hardship is staggering." **Peter Boone & Simon Johnson, Money Managers**

"Millions of people in Europe and America are going to bear the brunt of economic pain far longer than they have to. And they'll do so because people with colossal egos can't admit that their socialist utopian schemes are utter failures." **Arnold Ahlert, Columnist**

"In the first four months of 2012 Chinese gold purchases have increased by an unprecedented 782% over 2011." **Hong Kong Government**

"A progressive American think tank begs Bernanke to bail out Spain." **Tyler Durden, Editor**

"Officials lie like rats in times of financial panic; they do it out of a sense of duty. They will insist that a given country will never leave the euro until the moment that it does; they will say that a deposit freeze is unthinkable until they announce that they've done it; they will tell you a bank is rock solid until the moment they padlock its doors. This is all for your own good, of course. They don't want you to panic - and they want to make sure that your money is trapped when they take it away." **Russell Mead, Author**

THE FAT LADY IS CLEARING HER THROAT

By Mark Grant
(condensed)

Once at a social gathering, Gladstone said to Disraeli:

"I predict, Sir; that you will die either by hanging or of some vile disease..."

Disraeli replied,
"That all depends, sir, upon whether I embrace your principles or your mistress."

We have reached a point where the shepherd has shouted "wolf" one too many times, where the theatre goer has shouted "fire" one too many times and the crowd no longer believes the jargon and is standing pat. From one politician to the next in Europe the words are strikingly the same; "bold actions, courageous decisions, decisive plans" which are meant to stoke the propaganda machine and assure the world that all is well.

We face a world where contingent liabilities, promises to pay and guarantees of debts are NOT counted and where asset guarantees, illusionary firewalls and unfunded rescue programs ARE counted and in some cases counted more than once. Europe has, in fact, provided a complex system of hoaxes, inaccurate data and false financial reports that have been for the most part believed but that belief system is now crumbling as every quarter presents new data that proves the inaccuracy of what we have been told.

In America we are also suffering from a hoax; just one of a different variation. The notion that the United States, myopic in its vision, will escape the quite real recession in Europe and that there will be a decoupling of some sort is the same fantasy to be found in Cinderella and here comes the Prince to whisk you off to the castle. There is no fairy godmother coming to save us and I am afraid we are bound to labor for our wages just like everyone else. Recession in Europe will bring recession to China, will bring recession to America and just get it through your heads and plan accordingly.

Every country in Europe is in a recession except Germany and I can virtually guarantee you that Germany will be in one soon as they cannot avoid the contagion any more than America can. Germany and the United States, best of class in their own way, will be the last to suffer the slings and woes of misfortune but we will suffer from them in the end.

The past monetary easing by the Fed and the ECB helped to delay it all but we are at a point now where any new easing won't do much. This is because of our interest rates being at almost zero and where do you think we are going; citizens and institutions paying the government to hold our money? No, I don't think so and this, coupled with plenty of liquidity now in the world so that any new injection of liquidity will provide only a very momentary buoyancy so that easing, any type of easing, will do very little to stop a decline in equities, a widening of credit spreads, a rise in Treasury prices and all of the other things that one finds in a recession which will be more severe than predicted by most and so the world, along with Europe, is meeting reality and will find it a quite unpleasant experience.

If the American experience taught us anything it should be first that looking backward, when facing a financial decline has about the same benefit as dipping your body in the Ganges River and hoping for salvation. In a recession what was will not be and all of your attention has to be shoved forward to look at what will come and not what has come.

Treasuries are the needle on the speedometer and if there is one clear indication of very serious trouble ahead you can read it there.

The fat lady is about to sing. If you don't wish to listen then don't show up later and say I didn't warn you.

THE BIG PRINT
By Mike Krieger
(condensed)

Here in the U.S., I think that The Bernank's plan was to pretend they didn't need to print more money, get commodity prices down and then hope that the economy would respond favorably to that development. This wouldn't have negated the need for more printing; however, it would have bought time and allowed for a potentially lesser degree of action. Instead, what has happened is that the global Ponzi is completely and totally incapable of holding itself together without consistent and increasingly large infusions of Central Bank money. The debt burden is too large, the mal-investments too pervasive, the corruption too systemic. The whole house of cards that is the global economy will vanish into dust rather quickly without more and more printing. So what do you think they are going to do? If I am correct, and the U.S. economy itself is now in the early stages of what will probably turn into a serious economic slowdown, then it will not be easily stopped with incremental Central Bank policies. The fact that they have waited this long and the fact that the global economy is in the midst of a serious slowdown tells me one thing. They are way behind the curve and by the time they realize this it will be too late to stem the momentum. That said, I do expect them to respond and the fact that things will have gotten much worse than they expected will mean a major response. I'm not talking operation twist part deux. I mean a serious print. Potentially the Big One.

THIS TIME IS DIFFERENT
By Graham Summers
(condensed)

Europe will collapse before the end of the year and very likely before the end of the summer. When this Crisis hits it will be worse than 2008. And the world's Central Banks will not be able to control the damage.

What makes this time different?

1. The Crisis coming from Europe will be far, far larger in scope than anything the Fed has dealt with before.
2. The Fed is now politically toxic and cannot engage in aggressive monetary policy without experiencing severe political backlash (this *is* an election year).
3. The Fed's resources are spent to the point that the only thing the Fed *could* do would be to announce an ENORMOUS monetary program which would cause a Crisis in of itself.

We're talking about a banking system that is nearly four times that of the U.S. ($46 trillion vs. $12 trillion) with at least twice the amount of leverage (26 to 1 for the EU vs. 13 to 1 for the U.S.), and a Central Bank that has stuffed its

balance sheet with loads of garbage debts, giving it a leverage level of 36 to 1.

And all of this is occurring in a region of 17 different countries none of which have a great history of getting along… at a time when old political tensions are rapidly heating up.

To be clear, the Fed, indeed, Global Central Banks in general, have never had to deal with a problem the size of the coming EU's Banking Crisis. There are already signs that bank runs are in progress in the PIIGS and now spreading to France.

I want to stress all of these facts because I am often labeled as being just "doom and gloom" all the time. But I am not in fact doom and gloom. I am a realist. And EU is a colossal mess beyond the scope of anyone's imagination. The world's Central Banks cannot possibly hope to contain it. They literally have one of two choices:

1. Monetize everything (hyperinflation)
2. Allow the defaults and collapse to happen (mega-deflation)

If they opt for #1, Germany *will* leave the Euro. End of story. So even the initial impact of a massive coordinated effort to monetize debt would be rendered moot as the Euro currency would enter a free-fall, forcing the U.S. dollar sharply higher which in turn would trigger a 2008 type event at the minimum.

Moreover, we need to consider that the Fed is now so politically toxic that Ben Bernanke is literally going on the campaign trail to attempt to convince the American people that the Fed is an honest and helpful organization. Put another way, there is NO CHANCE the Fed can announce a large-scale monetary policy unless a massive Crisis hits and stocks fall *at least 15%.*

Finally, … if the Fed *were* to announce a new policy it would have to be MASSIVE, as in more than $2 trillion in scope. Remember, the $600 billion spent during QE 2 barely bought three months of improved economic data in the U.S. and that was a pre-emptive move by the Fed (the system wasn't collapsing at the time).

So given that the Fed will only be able to announce a large scale program in *reaction* to a Crisis, whatever it *did* announce would have to be ENORMOUS, a kind of shock and awe, attempt to rein in the markets.

Moreover, it would literally be THE LAST QE the Fed could hope to ever announce as political outrage from the ensuing Dollar collapse and inflationary pressures would likely see open riots and/or the Fed dismantled (this has happened twice before in the U.S.'s history).

In simple terms, the Fed's hands are tied until a huge Crisis hits. And then, *if* the Fed acts it's going to have to go "all in" with a massive program. If it does, we will *still* experience a Crisis, as the Dollar would collapse pushing inflation through the roof as well as interest rates (which in turn would destroy the banks as well as the U.S. economy).

In simple terms, this time around, when Europe goes down (and it will) it's going to be bigger than anything we've seen in our lifetimes. And this time around, the world's Central Banks are already leveraged to the hilt having spent virtually all of their dry powder propping up the markets for the last four years.

Again, this time it *is* different. I realize most people believe the Fed can just hit "print" and solve everything, but they're wrong. The last time the Fed hit "print" food prices hit records and revolutions began spreading in emerging markets. If the Fed does it again, especially in a more aggressive manner as it would have to, we would indeed enter a dark period in the world and the capital markets.

This is not Doom and Gloom, this is *reality*.

BOND JUBILEE
By Jeff Nelson
(condensed)

Western investors currently hold only roughly 1/10th the amount of gold and silver that they have

normally held on an historical basis. In other words, at the point in time where Western investors should be choosing to hold more gold and silver than at any time in history they are instead holding less gold and silver than at any time in history.

Then there is the second opposite misallocation. These zombie investors are not only loaded up with $trillions of our (worthless) paper currencies; they are also holding $10's of trillions in bonds, issued by hopelessly insolvent Western debtors – and denominated in those same, dying fiat currencies. Here clueless paper-holders must step back and take a look at history.

In the 1,000 years since China began humanity's experiments with these worthless, paper ("fiat") currencies; the paper has a perfect record: it always goes to zero. Meanwhile, we are equally well-advanced along the road to another regular, economic event in our collective history: what I call a "bond-burning part" – where insolvent debtor governments simply erase all of those bond debts, leaving bond-holders with a big, fat nothing.

These bond-burning parties have more commonly been known throughout history as "debt jubilees"; one or more governments collectively or unilaterally decreeing that their bond debts no longer exist, and thus the "bonds" themselves become nothing but an inferior brand of toilet paper. They are regular events in history, but naturally most Western readers are totally unfamiliar with this common (and inevitable) historical trend.

Our paper-pushing bankers have made sure that their servants in government and the media never let the Sheep know that both the bankers' paper currencies and the bankers' paper bonds always end up as worthless paper. In fact, "debt jubilee" is a concept which literally dates back to Biblical times. Back then they didn't wait for the bankers to officially bankrupt nations before declaring a debt-jubilee. Rather, they were scheduled events – every 25 or 50 years.

So we have our bankers telling us that both their paper bonds and paper currencies are "safe havens." Meanwhile, 1,000+ years of our own history tells us that both forms of paper are certain to end up totally worthless. Obviously treating $10's of trillions in worthless (Western) banker-paper as a "safe haven" represents a misallocation of capital on a scale at least an order of magnitude greater than anything else in our history.

For those deluded paper-holders who scoff at the idea of their precious paper becoming worthless "during their lifetime:" open your eyes. In little more than 40 years since the gold standard was abolished and our currencies fully became "fiat currencies" they have already lost more than 75% of their value. With "competitive devaluation" now our official monetary policy, that rate of dilution/destruction is increasing exponentially.

As for these equally worthless Western bonds, debt jubilee has already started. What do readers think just happened in Greece? One minute there was a stack of paper with a (nominal) value of $400 billion. The next minute the stack of paper was worthless. What happened in between? Debt jubilee.

Understand that debt jubilee is now a mathematical certainty in the West. Nearly three years of Europe's "austerity" has shown that none of these debtors is even capable of reducing the size of their deficits – let alone ever approaching a balanced budget. Absolute, empirical evidence that all of these Deadbeat Debtors are past the point of no return.

Across the Atlantic, it is common knowledge that the U.S. is even more fundamentally insolvent than Europe's debtors.

Just as the money-printing of the bankers dwarfs all economic fundamentals today, the Flight out of Paper will dwarf all other fundamentals tomorrow. Then there are the tiny, grossly under-owned financial Lifeboats in which our species has sought refuge in times of crisis for nearly 5,000 years: gold and silver. On an average historical basis, investors have held between 5% and 10% of their financial assets in gold or silver, with that ratio tending to rise dramatically in times of crisis.

Yet today, as the clueless paper-lemmings charge toward the looming financial chasm ahead; gold and silver represent only about 1% of the average (lemming) portfolio. What happens on the day when even the lowly lemming realizes that their precious paper is worthless – and only gold and silver remain as "safe havens?" Picture a million elephants trying to squeeze through the eye of a needle, simultaneously.

The creators of all this worthless paper (our central banks) aren't waiting for that stampede to begin. They are already dumping their worthless paper for gold at the fastest rate in 50 years, and by the end of this year that will likely have escalated to the fastest rate in history, as the gold-buying by central banks continues to accelerate.

Then we have the Corporate Media duping the hordes of lemmings into continuing to hold this worthless, obsolete paper – so that the bankers can buy their gold first (and cheaper). Indeed, the malevolent media propaganda machine has gone much further. It has fraudulently referred to gold and silver as "bubbles," despite never being so under-owned by Western investors in all of history.

Apart from shattering the lies of the media about a gold bubble with simple and obvious logic, the behavior of our central banks is an irrefutable rebuttal to the media's propaganda. It is this same media which hail these central bankers, as the ultimate sages of our financial system, and their message is clear: dump your paper and buy gold (or silver).

HEDGING AGAINST THE UNTHINKABLE
By James Cook

If the world collapses before your eyes and you have done nothing to prepare for it you will surely suffer. You must get over the Wall Street assurance that nothing too bad can happen to the mighty dollar, the stock market and the American economy. Instead of buying their story and adding more paper on dips get a minimum of 10% to 20% in silver.